



Chattanooga Gas Company

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May 21, 2004

Chairman Deborah Taylor Tate
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**Re: Chattanooga Gas Company
Responses to TRA Staff's Data Requests
Docket No. 04-00034 – Petition of Chattanooga Gas Company for Approval
of Adjustment of its Rates and Charges and Revised Tariff**

Dear Chairman Tate,

Enclosed please find an original and 13 copies of Chattanooga Gas Company's responses to the following data requests issued by the TRA Staff:

Twelfth Set of Data Requests – 137 and 138

If there are any additional questions, I can be reached at 404-584-4263.

Sincerely,

Michael J. Morley
AGL Resources
Rates & Regulatory

Data Request No. 137

For accounts 671025 (Direct Charge-Incentive Compensation), 671402 (Direct Charge-OM Project Chargeback), and 671404 (Allocated-Distributed Chargeback), explain the services included in each account and why the Attrition Period forecast is zero in each case. Were pro forma adjustments made with regard to the test period amounts of \$(78,128), \$31,356, and \$1,760,108 respectively? If the answer is yes, state where these adjustments can be found. If the answer is no, explain why pro forma adjustments were not needed.

Response:

Account 671025 (Direct Charge-Incentive Compensation)

Account #671025 "Dir Charge Incentive Compensation" is used to re-allocate incentive compensation expense to AGL Resources Inc. ("AGLR") affiliates to more accurately reflect the estimated amount of service provided by the employees receiving the incentive based compensation.

Incentive compensation expense is recorded in account #670590 – "Bonus" in department 1429 on the books and records of AGL Services Company ("AGSC"). These charges are allocated to AGLR affiliates through the allocated and distributed allocation process using the ratio of full time equivalents method, which allocates costs to AGLR affiliates with employees. Please refer to TRA Data Request No. 131 and CAPD Discovery Request No. 11 for a more detailed description of AGSC's shared services allocation process, specifically the allocated and distributed process.

On a periodic basis, the employees for which AGLR is incurring incentive based compensation expense are analyzed to determine what types of services they provide and to which AGLR affiliates. This analysis is performed through review of time sheets and discussions with the employees. Based on this analysis, the cost allocation is re-calculated, resulting in an allocation of expenses to affiliates other than just those with employees, including, but not limited to, AGLR, AGL Capital Corporation, Georgia Natural Gas Company and AGL Propane Services. The re-calculation results in a more fair and equitable allocation of the costs among all AGLR affiliates based on the estimated amount of service provided by the employees receiving incentive based compensation.

For budgeting and forecasting purposes, allocations associated with the above incentive compensation costs are included in account 671417 – Allocated Employee Services. Therefore, amounts associated with account 671025 are included in account 671417 in

the attrition period. A pro forma adjustment was not made as any adjustment would simply be a reclass between accounts within the AGSC shared services allocation expense.

671402 - Direct Charge-OM Project Chargeback

Account 671402 – “Direct Charge-OM Project Chargeback” is used to allocate costs related to a specific project. These costs are allocated through journal entry or the direct assigned chargeback process. Please refer to TRA Data Request No. 131 and CAPD Discovery Request No. 11 for a more detailed description of AGSC’s shared services allocation process, specifically the direct assigned chargeback process.

For budgeting and forecasting purposes, allocations associated with these costs are included in account 671403 – Direct Assigned Chargeback. Therefore, amounts associated with account 671402 are included in account 671403 in the attrition period. A pro forma adjustment was not made as any adjustment would simply be a reclass between accounts within the AGSC shared services allocation expense.

671404 – Allocated-Distributed Chargeback

Prior to April 2003, allocated costs associated with the allocated and distributed chargeback process for each service provider were recorded in account 671404, “allocated distributed chargeback.” Please refer to TRA Data Request No. 131 and CAPD Discovery Request No. 11 for a more detailed description of AGSC’s shared services allocation process, specifically the allocated and distributed process.

Beginning in April 2003, the allocated and distributed expenses by service provider were recorded in separate accounts (671412-671431) on the general ledger. Account 671404 is no longer used to record shared service allocated costs on the books and records of AGSC affiliates.

For budgeting and forecasting purposes, allocations associated with the allocated and distributed chargeback process are also included in accounts 671412 – 671431. A pro forma adjustment was not made as any adjustment would simply be a reclass between accounts within the AGSC shared services allocation expense.

Data Request No. 138

For the following accounts, explain the services included in each and the reason for the significant increases in allocated amounts for the Attrition Period allocation. Identify the allocation drivers and provide calculations for the forecasted amounts.

Account Number	Actual Test Period Amount	Forecasted Attrition Period Amount	Percentage Increase
671413	7,195.36	10,536.29	46.4%
671415	4,698.81	26,756.45	469.4%
671416	244,373.66	589,255.49	141.1%
671418	33,120.66	171,259.22	417.1%
671419	38,100.63	74,686.77	96.0%
671421	42,941.86	72,177.67	68.1%
671422	207,206.71	498,610.82	140.6%
671423	33,288.22	227,132.94	582.3%
671424	182,307.16	872,673.29	378.7%
671425	15,593.52	44,343.00	184.4%
671427	160,557.96	479,693.58	198.8%
671428	13,049.20	68,417.58	424.3%
671429	42,219.88	164,892.65	290.6%
671430	5,381.12	41,622.67	673.5%

Response:

Please see attached TRA 138-1 for a list of services provided by account. The service providers and description of services provided is also provided in Chattanooga Gas Company's (CGC) supplemental response to TRA Minimum Filing Guideline No. 46, which was filed April 30, 2004.

The primary reason for the significant increases in the above accounts is also discussed in CGC's responses to TRA Data Request Nos. 131 and 137. As stated in those responses, the above accounts were used beginning in April 2003, replacing account 671404. Therefore, the test period has six months of expense while the attrition period has twelve months of expense in the above accounts. When comparing accounts 671412-671431 in

total between the test period and the attrition period, the amount in account 671404 for the test period should be included.

AGL Resources Inc. and subsidiaries analyze allocated shared service costs from AGL Services Company (AGSC) by service provider as opposed to by general ledger account. Analyzing the shared service costs charged to affiliates by AGSC at the service provider level provides a better detail of the types of services AGSC provides to its affiliates and the related costs of providing those services.

Please refer to attached schedule TRA 138-2 for a comparison, by service provider, between the test period and the attrition period of AGSC shared service allocations to CGC.

Additionally, schedules TRA 138-3, 138-3-1 and 138-3-2 provide the allocation drivers and corresponding calculations for the amounts included in shared service allocation accounts 671412-671431. Schedule 138-3-1 is marked confidential and is being filed under seal pursuant to the protective order issued in this docket.

1. Rates and Regulatory – Account 671430

AGSC assists CGC in the analysis of their rate structures and in the formulation of rate policies and advises and assists CGC in proceedings before regulatory bodies involving the rates and operations of CGC and of other competitors where such rates and operations directly or indirectly affect CGC.

2. Internal Auditing – Account 671425

AGSC conducts periodic audits of administration and accounting processes. Audits would include examinations of CGC service agreements, accounting systems, source documents, allocation methods and billings to assure proper authorization and accounting for services.

3. External Relations – Account 671421

AGSC maintains relationships with government policy makers, conducts lobbying activities and provides community relations support.

4. Gas Supply and Capacity Management – Account 671423

AGSC assists CGC in coordinating the management of their gas supply and in coordinating gas transmission and storage services to ensure the most efficient use of services and to capture economies of scale as a larger purchaser in the market. Individually, CGC may, however, remain as the contract party under any agreement.

5. Legal Services and Risk Management – Account 671427

AGSC provides various legal services and general legal oversight. In addition, AGSC provides insurance, claims, security, environmental and safety related services.

6. Marketing – Account 671428

AGSC assists CGC by providing customer service surveys to improve customer service and efficiency, by providing analysis, implementation and maintenance of line extension policies, by providing analysis of tariff rates in response to customer needs and by developing marketing strategies and programs. Individually, CGC may maintain independent marketing personnel to handle the day-to-day details of marketing campaigns.

7. Financial Services – Account 671422

AGSC provides various services to CGC including corporate tax, treasury, corporate accounting and reporting, general ledger maintenance and all accounting recordkeeping, processing certain accounts such as accounts payable, cash management, and others as may be deemed necessary, financial planning and rates and regulatory compliance.

8. Information Systems and Technology – Account 671424

AGSC provides CGC with electronic data processing and telecommunication network services.

9. Executive – Account 671419

AGSC utilizes the executive staff of AGLR in order to assist CGC in formulating and executing general plans and policies, including operations, appointment of executive personnel, budgets and financing plans, expansion of services, acquisitions and dispositions of property, public relationships and other related matters.

10. Investor Relations – Account 671426

AGSC maintains relationships with the financial community, provides shareholder services, and performs corporate secretarial functions for the benefit of the AGLR System as a whole, which includes CGC.

11. Customer Services – Account 671416

AGSC provides billing, mailing, remittance processing, call center and customer communication services for customers.

12. Employee Services – Account 671417

AGSC assists CGC in developing employee relations policies and programs, and training personnel in a coordinated manner. AGSC also provides payroll services, management of the employee benefit plans, employee communications and mail services.

13. Engineering – Account 671418

AGSC provides engineering services for CGC. These services include infrastructure expansion and improvements, corrosion control, right-of-way maintenance and acquisition, leak surveys, mapping, laboratory, and environmental services.

14. Business Support.

i. Purchasing – Account 671415

AGSC provides procurement services to CGC.

ii. Facilities Management – Account 671412

AGSC provides facilities management services for offices owned or leased by CGC.

iii. Fleet. – Account 671413

AGSC provides fleet management services for vehicles owned or leased by CGC and/or AGSC.

iv. Other – Account 671414

AGL Services Company provides other services to AGL System companies such as records management, media & visual services, business process innovation.

15. Other – Account 671429

AGSC provides other services, such as business development, or as requested by CGC.

CGC Shared Services Allocations
After Pro Forma Adjustments

Service Provider	Attrition Period Total	Test Period Actuals	Increase (Decrease) from Test period	%	Total Allocable Expenses - AGSC by Svc Provider After Pro Forma Adjustments				% of Svc			
					Attrition Period Total	Test Period Actuals	Increase (Decrease) from Attrition Period	% (Decrease)	Provider Costs Allocated to CGC Attrition Period	Provider Costs Allocated to CGC Test Period	% (Decrease) Increase	
Business Supt Facilities	188,608.82	184,258.82	4,350.00	2.36%	3,916,354.74	4,717,393.25	(801,038.51)	-16.98%	4.82%	3.91%	18.90%	
Business Supt Fleet	436,732.53	450,848.99	(14,116.46)	-3.13%	6,691,897.98	6,942,116.78	(250,218.80)	-3.60%	6.53%	6.49%	0.49%	
Business Supt Other	26,084.27	95,889.21	(69,804.94)	-72.80%	1,184,365.22	2,029,199.21	(844,833.99)	-41.63%	2.20%	4.73%	-114.56%	
Business Supt Purchasing	28,919.14	43,483.20	(14,564.06)	-33.49%	699,109.24	647,385.84	51,723.40	7.99%	4.14%	6.72%	-62.37%	
Customer Services	731,419.42	992,728.55	(261,309.13)	-26.32%	8,881,080.47	12,508,274.41	(3,627,193.94)	-29.00%	8.24%	7.94%	3.63%	
Employee Services	853,788.72	925,267.46	(71,478.74)	-7.73%	18,249,553.07	16,842,220.05	1,407,333.02	8.36%	4.68%	5.49%	-17.43%	
Engineering	319,146.89	376,266.94	(57,120.05)	-15.18%	6,555,378.13	6,079,955.34	475,422.79	7.82%	4.87%	6.19%	-27.12%	
Executive	110,181.67	125,647.37	(15,465.70)	-12.31%	2,379,965.31	2,855,872.69	(475,907.38)	-16.66%	4.63%	4.40%	4.97%	
External Relations	78,013.36	93,051.38	(15,038.02)	-16.16%	2,017,521.12	1,915,093.65	102,427.47	5.35%	3.87%	4.86%	-25.66%	
Financial Services	833,684.53	855,734.66	(22,050.13)	-2.58%	14,806,745.81	13,883,774.13	922,971.68	6.65%	5.63%	6.16%	-9.47%	
Gas Supply	759,927.71	779,504.64	(19,576.93)	-2.51%	12,223,790.35	12,607,280.97	(383,490.62)	-3.04%	6.22%	6.18%	0.54%	
IS&T	1,582,620.84	990,121.85	592,498.99	59.84%	38,798,482.31	26,869,501.07	11,928,981.24	44.40%	4.08%	3.68%	9.66%	
Internal Auditing	47,927.99	86,541.78	(38,613.79)	-44.62%	1,163,825.09	956,161.33	207,663.76	21.72%	4.12%	9.05%	-119.78%	
Investor Relations	4,463.90	32,016.69	(27,552.79)	-86.06%	95,150.47	657,366.54	(562,216.07)	-85.53%	4.69%	4.87%	-3.82%	
Legal	695,643.60	470,336.11	225,307.49	47.90%	13,245,575.58	11,706,001.48	1,539,574.10	13.15%	5.25%	4.02%	23.50%	
Marketing	73,949.38	54,134.49	19,814.89	36.60%	2,886,339.82	2,307,706.74	578,633.08	25.07%	2.56%	2.35%	8.44%	
Other	275,984.24	257,167.34	18,816.90	7.32%	5,626,278.37	5,708,476.04	(82,197.67)	-1.44%	4.91%	4.51%	8.16%	
Rates & Regulatory	89,356.02	122,016.07	(32,660.05)	-26.77%	1,990,289.63	1,733,726.66	256,562.97	14.80%	4.49%	7.04%	-56.76%	
Strategic Planning	-	1,271.00	(1,271.00)	-100.00%	256.44	1,188.04		0.00%				
	7,136,453.03	6,936,286.55	201,437.48		141,411,959.15	130,968,694.22						

(A) - Increase in IS&T costs between the test period and attrition period are due to the following

	Increase in Payroll	Explanation
Increase in Outside Services	2,000,000	Increase due to re-allocation of existing employees from capital project work to O&M expense support functions and projects, normal pay increases and an increase in head count of 10
	4,000,000	Increase in O&M expense initiatives and projects, including Work Management System (WMS), Automated Dispatch upgrade, meter asset management systems, as well as increase in IS&T functions supported by outside services
Increase in Maintenance Expense	1,700,000	Increase in maintenance and support costs primarily due to implementation of the Geographical Information System (GIS) in 2003 and Peoplesoft as well as an increase in support for current systems , including Oracle, Peoplesoft and Microsoft EA
Decrease in Capitalized A&G Costs	900,000	Decrease in capital project related activities
Increase in Depreciation	1,200,000	Implementation of IS&T systems in 2003 resulting in increase in assets placed in service and resulting depreciation expense Assets placed in service in 2003 included the GIS system, Peoplesoft upgrades and other desktop applications The increase also includes additional assets to be placed in service subsequent to the test period but prior to the attrition period
Decrease in IS&T Allocations to Other		
AGSC Service Providers	2,200,000	Decrease in IS&T direct charges and direct assigned O&M project costs from IS&T to other service providers within AGSC
	12,000,000	

(B) - Increase in legal costs between the test period and attrition period are due to the following

	<u>Explanation</u>
Increase in Payroll and related costs	900,000
Other	600,000
	<u>1,500,000</u>

Increase in head count of 6 between the test period and the attrition period as well as normal pay increases

Primarily related to increase in worker's compensation expense and outside services

Chattanooga Gas Company

Docket No. 04-00034

TRA Data Request 138

Schedule 138-3

Calculation of Allocated and Distributed Cost Process - CGC

General Ledger Account and Description	Primary Driver	Driver %	AGSC Allocable Costs - Allocated and Distributed Process	Allocated and Distributed Costs - CGC
671412 Allocated Bus Supt Facilities	Composite Rate for Chargeback	4 4989% (A)	3,261,534	146,733 03
671413 Allocated Bus Supt Fleet	Composite Rate for Chargeback	4 8959% (B)	215,208	10,536 29
671414 Allocated Bus Sup Other	Composite Rate for Chargeback	4 8090% (C)	431,998	20,774 83
671415 Allocated Bus Supt Purchasing	Composite Rate for Chargeback	4 4989% (A)	594,734	26,756 45
671416 Allocated Customer Services	Call Volume Stats for Allo	6 8526% (H)	8,599,001	589,255 49
671417 Allocated Employee Services	FTEs for composite rate cback	4 3685% (I)	5,369,204	234,556 17
671418 Allocated Engineering	End Use Customers -Cback	3 2270% (J)	5,307,048	171,259 22
671419 Allocated Executive	Composite Rate for Chargeback	4 3808% (D)	1,704,866	74,686 77
671421 Allocated External Relations	Composite Rate for Chargeback	4 3808% (D)	1,647,591	72,177 67
671422 Allocated Financial Services	Composite Rate for Chargeback	4 1820% (E)	11,922,706	498,610 82
671423 Allocated Gas Supply	End Use Customers -Cback	3 2270% (J)	7,038,485	227,132 94
671424 Allocated IS&T	Composite Rate for Chargeback	4 2365% (F)	20,598,917	872,673 29
671425 Allocated Internal Auditing	Composite Rate for Chargeback	4 3808% (D)	1,012,212	44,343 00
671426 Allocated Investor Relations	Composite Rate for Chargeback	4 3808% (D)	94,281	4,130 27
671427 Allocated Legal	Composite Rate for Chargeback	4 3808% (D)	10,949,908	479,693 58
671428 Allocated Marketing	End Use Customers -Cback	3 2270% (J)	2,120,151	68,417 58
671429 Allocated Other	Composite Rate for Chargeback	4 4750% (G)	3,684,730	164,892 65
671430 Allocated Rates & Regulatory	End Use Customers -Cback	3 2270% (J)	1,289,820	41,622 67
671431 Allocated Strategic Planning	All to GL1	0 0000%	256	-

(A) Please refer to Schedule 138-3-1 and refer to reference (A)

(B) Please refer to Schedule 138-3-1 and refer to reference (B)

(C) Please refer to Schedule 138-3-1 and refer to reference (C)

(D) Please refer to Schedule 138-3-1 and refer to reference (D)

(E) Please refer to Schedule 138-3-1 and refer to reference (E)

(F) Please refer to Schedule 138-3-1 and refer to reference (F)

(G) Please refer to Schedule 138-3-1 and refer to reference (G)

(H) Please refer to Schedule 138-3-2 and refer to reference (H)

(I) Please refer to Schedule 138-3-1 and refer to reference (I)

(J) Please refer to Schedule 138-3-2 and refer to reference (J)

Chattanooga Gas Company

Docket No 04-00034

TRA Data Request 138

Schedule 138-3-2

End Use Customers and Call Volume Statistics

Attrition Period Estimated Statistical Data

		Attrition Period Estimated Statistical Data												
		Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	
End use Customers	GL28 - 4000	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	258,408 00	(J)
	GL7 - 0000	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	1,537,717 00	
	GL8 - 8000	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	59,894 00	
	Total	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	1,856,019 00	
	Average Percent - CGC	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	3 23%	
Call Volume	GL28 - 4000	42,798 00	42,458 00	40,561 00	53,002 00	47,016 00	50,873 00	61,451 00	52,499 00	56,607 00	47,217 00	57,892 00	50,316 00	(H)
	GL7 - 0000	90,912 00	90,891 00	91,119 00	104,543 00	103,768 00	83,832 00	97,281 00	82,100 00	80,233 00	87,816 00	89,940 00	89,178 00	
	GL8 - 8000	6,699 00	6,640 00	7,918 00	13,000 00	13,129 00	13,015 00	15,237 00	11,496 00	11,545 00	10,339 00	9,120 00	7,587 00	
	Total	140,409 00	139,989 00	139,598 00	170,545 00	163,913 00	147,720 00	173,969 00	146,095 00	148,385 00	145,372 00	156,952 00	147,081 00	
	Average Percent - CGC	4 77%	4 74%	5 67%	7 62%	8 01%	8 81%	8 76%	7 87%	7 78%	7 11%	5 81%	5 16%	
Actual used in allocations													6 908%	
Difference in percentage not material													6 853%	